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SELECTED POLICY INSTRUMENTS FOR THE EXPANSION OF DOMESTIC AND INTRA-AFRICAN TRADE

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I. INTRODUCTION 1/

1. Past experiences in international trade and financial relations have clearly demonstrated that such relations are not geared to nor are they conducive to African development. Therefore, the development of domestic and intra-African trade and finance as recognized in the Lagos Plan of Action, is an important aspect of the African economic development strategy. In order to ensure the attainment of collective self-reliance, these aspects of trade have to be given greater priority than has hitherto been the case. In fact, it cannot be overemphasized that if the level of domestic and intra-African trade were highly developed, the present economic crisis in Africa, especially the food shortages, would have been dealt with in a more effective manner. It is therefore important to emphasize that the future rate of economic growth in Africa will, to a very large extent, be shaped by the state of domestic and intra-African trade and finance which the countries decide to promote.

2. For a long-time, economists have led the African leadership to believe that domestic and intra-African trade cannot be expanded due to the narrow African market or due to the fact that Africa produced similar crops. This observation cannot be supported by any empirical evidence. If one takes any commodity say, copper, bauxite, coffee, sugar or cotton, it will be noted that at best only six or less countries are main producers. The rest of the countries cannot produce even enough for domestic markets. In fact, in terms of market potentials, countries in Europe, North America and South East Asia as well as Japan continue to conduct lucrative trade with Africa. Therefore, the problem of intra-African trade is not that of the lack of adequate markets or lack of complimentarity but a matter of negative African attitude towards African produced goods.

II. DOMESTIC TRADE

3. The development of domestic trade has generally not been given prominence in the African trade policies. The Lagos Plan of Action singled out domestic trade as being among the most important factors for attaining collective self-reliance. A call was made to "rationalize channels of distribution with a view in particular to minimizing the number of intermediaries and to ensuring control thereof by indigenous enterprises whether private or public or a combination of both."

4. Despite this recognition, many countries still continue to accord low priority to the development and expansion of domestic trade, especially since this is not viewed as a contribution to foreign exchange earnings. The low

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level of domestic trade has resulted in several undesirable factors in the economic development prospects of the African countries as listed below:

(i) There is an imbalance in many African countries not only in the levels of development between the various regions of the same country but also in the structure of production and distribution of goods and services, including food, and to the extent that this imbalance is allowed to exist, one area of the country would generally suffer at the expense of another area.

(ii) Partly because of the low levels of domestic trade and the absence of adequate information network on agriculture and food production, cases have been reported where a country exports food grains such as maize when some other parts of the same country are affected by drought and famine requiring such food grains. In fact, it is true to state that some of the countries currently affected by famine could reduce the impact of hunger by redistribution of existing food supplies through a more effective system of domestic trade.

(iii) Great disparities continue to exist between the rural and urban areas partly due to underdeveloped nature of the domestic trade. Price mechanisms and other incentives favour urban development vis-a-vis rural areas. As a result, the terms of trade move against agriculture thereby forcing the rural communities to subsidize the urban community through development policies that give low priority to rural areas where the majority of the population live.

(iv) Similarly, due to deliberate income policies, investment concentrates on the production for overseas markets to the detriment of local consumption. In fact, some countries always reserve the best quality of products, (cotton textiles, sugar, tea, coffe, tobacco, oilseeds etc.) for export markets leaving the very poor quality and inferior grades for the domestic market. This forces those who can afford to do so to import instead of buying locally.

5. If the improvement in the quality of life of the people of Africa is the main development objective, then the African governments will have to introduce drastic changes in the development objectives and priorities to accord domestic trade the important place it deserves. To this end, the measures for expanding domestice trade should encompass the range of activities including the exchange of goods and services, provision of storage facilities, price incentives especially for rural agricultural goods, adequate transport and communications and financial support.

(a) Emergency measures

More specifically, the following measures are proposed to be undertaken by the African government as a matter of urgency:

(i) A thorough inventory should be made of all staple food grains produced in each country. This should be matched with consumption habits of the main tribal groups. This should form the basis for a new policy for promoting trade between any two locations based on the introduction of need food diets.

(ii) The governments should introduce, with the collaboration of commercial banks and co-operative societies when they exist, new forms of rural agricultural credit for small-holder as well as medium scale farmers specifically geared for promoting internal trade within the country. Special incentives should be given to farmers and smaller production or manufacturing enterprises producing for the local market.

(iii) A new mechanism for domestic trade facilitation which should include transport, storage and insurance, should be introduced. This should be supported by a new pricing structure which deliberately provides incentives to local producers as well as improving the distribution network through the improvement in the local or traditional marketing systems. One way of doing this is to provide better facilities such as sheds, counters, water, and electricity for the traditional weekly, bi-weekly or daily markets in the rural areas.

(iv) A comprehensive training scheme in marketing should be introduced in the rural areas for traditional farmers. This should be complemented by the training of the urban populations, especially educated "elites", to consider buying locally manufactured goods instead of always looking to import even in cases where local goods of comparable quality are available at cheaper prices.

(b) Medium and long-term measures

6. As a medium and long-term development objective, domestic trade should be built into thenational development plans and accorded the important role it deserves. In some cases, it may be necessary to reserve development resources, including raw materials, exclusively for production for the domestic market. An extensive education campaign should be mounted on "buy local goods" and to promote domestic resource-based industries as a means of promoting self-sustaining development at the national level. This in turn would promote and strengthen the foundation for collective self-reliance at the subregional and regional levels discussed later.

III. INTRA-AFRICAN TRADE

7. The Lagos Plan of Action stated that intra-African trade is the mainstay of the present development strategy and that sub-regional and regional organizations should be established to facilitate such trade. In terms of building up institutional capabilities or strengthening existing ones, considerable progress has been achieved. Presently, among the institutions of relevance of intra-African trade include the following: The Preferential Trade Area of Eastern and Southern African States (PTA); The Southern African Development Co-ordination Conference (SADCC); the Communaute economique des pays des grand lac (CEPGL); Economic Community of Central African States (ECCAS); the West African Economic Community (ECOWAS); the Central African Customs and Economic Union (UDEAC); Communaute Economique des Etats de l'Afrique de l'Ouest (CEAO);and the Mano River Union (MRU) to name only a few.

8. It has to be stressed, however, that despite the existence of these subregional and regional intergovernmental organizations, and despite repeated declarations indicating that intra-African trade is the main factor which will determine Africa's collective self-reliance, such trade continues to represent only a small percentage of total world trade. As statistics show, except in a few cases, no efforts are being made by the African countries to use the institutions established by themselves as a means of promoting intra-African trade. The African governments have yet to prove that they consider intra-African trade as a positive means by which African trade and development problems can be resolved by Africans themselves in an African manner.

9. As can be seen in the statistical information in Annex I, only in a few countries do the percentage of imports from other countries represent a significant portion in 1981. These are BURKINA Faso(26.6%); Burundi (16.9%); Senegal (12.9%); Seychelles (16.8%) and Zimbabwe (35.2%). In a majority of cases where data is available, the intra-African imports represent an average only about 2-3 per cent of the total imports. This is not a satisfactory situation. Exports as shown in Annex II show a similar pattern.

(a) Some disturbing factors about intra-African trade

10. From preliminary empirical investigations conducted by the ECA secretariat, the following critical factors have emerged which need to be carefully considered by the African governments as a means of laying new foundations for intra-African trade expansion:

(i) Many African countries do not appear to have a definite policy on the development and expansion of intra-African trade. As a result, in terms of economic development planning at the national level, no definite measures are adopted with a view to rationally exploiting the possibilities of development offered by intra-African markets created by existing subregional groupings. This is true even of trade with in these subregional groupings. For instance, intra-African trade within the PTA, ECOWAS and ECCAS is hardly 5 per cent of their overall trade. Unless new directives are introduced, the expansion of intra-African trade will remain limited. This will require drastic changes in economic planning and policy as well as in attitudes towards economic development in general, which cannot take place overnight.

(ii) Inspite of the declaration in the Lagos Plan of Action, most African countries have not instituted radical changes in the structure of production, trade and consumption patterns to specifically promote intra-African trade. They have also not adapted intra-African trade to the basic needs of the masses of African population. Thus, they are still producing what they do not consume and consuming what they do not produce;

(iii) There is the lack of effective intra-African trade promotion and financial mechanism at national as well as at subregional and regional levels to promote economic development. This is exacerbated by the lack of trained and skilled manpower in the field of intra-African trade and has adversely affected the national exploitation of raw materials and other resources in the continent.

(iv) Most African trade policy makers as well as indigenous traders and business houses know more about market conditions in Europe, North America and Asia than they do of the neighbouring countries. Unfortunately, this is true even in the case of the member States of the PTA, SADCC, ECCAS or ECOWAS. This lack of adequate and reliable information on intra-African trade, combined with the lack of intra-African trade facilities, has led to African markets being fully exploited only by foreign suppliers to the detriment of the economic prosperity of the region.

11. In addition to the above, the investigations also show that the decision to trade with other African countries is largely political. In other words, a political decision at the highest level is required to initiate intra-African trade. Therefore, the mere establishment of subregional trade groupings or the removal of tariffs and other trade barriers does not result in significant intra-African trade flows. It is also in fact true that some countries export food grains while some areas of the same grouping face serious famine because domestic trade has not been developed. In fact, a number of countries in the PTA, SADCC, ECCAS and ECOWAS export food grains while other countries in these groupings have large populations dying of hunger and starvation partly because intra-African trade has not been developed. This seems to be contrary to the spirit and letter of the OAU Charter and needs to be ratified as a matter of urgency.

(b) Emergency and short-term measures

12. Because of the critical situation facing the African region, there is the need to adopt emergency measures for the expansion of intra-African trade. These should be taken alongside the rehabilitation and reconstruction programmes adopted in other major economic sectors such as agriculture and food production, industry, transport and communications and water resources. More specifically, the following activities should be implemented without any delay:

(i) Intra-African trade in agricultural products, especially food

13. History shows that during natural disasters and wars, the countries that faired best are always those able to feed themselves using domestic food production. If this can be taken as a lesson for Africa, then in order to deal with the present food crisis, action must be initiated to promote intra-African trade in locally produced agricultural products especially food. Action should be undertaken at these levels to determine the production, distribution and marketing of all food grains including staple crops. The purpose of this would be to determine where food surpluses and food shortages frequently occur either within a nation or at sub-regional level. It should be stressed that hitherto no co-ordinated action been taken in this field and the ad hoc measures that have been instituted at national level have often failed to produce the required impact.

14. Therefore, the secretariats of the Economic Commission for Africa, the Organization of African Unity and the Food and Agricultural Organization (FAO), in collaboration with other agencies within the United Nations system, should be requested to jointly prepare a comprehensive inventory of the food production and eating habits especially of staple food grains and root crops. These should be matched against existing production, storage and distribution structures in all African countries. An intensive training campaign should then be mounted in all countries, especially the drought-stricken areas, to introduce new staple food grains and dietary habits in places where the traditional food grains can no longer be grown.

(ii) Intra-African trade in basic manufactured consumption goods

15. Trade statistics also indicate that Africa spends huge sums of foreign exchange for the importation of basic manufactured consumption goods which are or can be manufactured somewhere in some African countries. These include a whole range of products such as plastic goods, shoes, cotton textiles, primary health care medicines (e.g. aspirins, cough syrups, antibiotics etc.), soaps and detergents, insecticides, toilet paper, beer, wines and other alcoholic beverages, blankets and breakfast cereals, butter and cheese, school items such pencils, rulers, rubbers, note books, chalk, to name only a few.

16. As was stated earlier, a large and expanding market for these items is presently being exploited by European, American, Japanese and Asian suppliers. It is therefore proposed that the African governments should initiate a "BUY AFRICAN GOODS" campaign in order to reverse the anti-African goods syndrome which has adversely affected intra-African trade for the past three decades. This campaign should have full political support at the highest level. The OAU all-Africa Trade Fairs should also be fully used as a media for such a campaign.

17. Experience so far gained shows that the creation of preferential trade area, the removal of customs and tariff barriers have created a positive attitude towards intra-African trade. However, in themselves they cannot significantly contribute to intra-African trade unless industrial production and distribution systems are directly linked with such trade. Therefore, new priorities should be drawn up for the immediate processing of food and other critical agricultural and mineral commodities such as sisal and other natural fibres, groundnuts, coffee, cocoa, tea, copper, tin and aluminium to supply such commodities to the subregional markets.

(iii) Intra-African trade in energy and raw materials

18. It is self-evident that any measures for the rehabilitation or reconstruction of the African economies would require huge quantities of energy (coal, hydrocarbons, electricity and fuel oils) as well as locally produced raw materials. Therefore, part of the emergency measures should constitute immediate production and trade in these commodities. Hitherto, much of these items have been geared for South-North trade and did not significantly benefit to the economies of the energy and primary producing African countries.

19. It is proposed that an inventory should urgently be taken of raw materials and energy production for intra-African trade. The suppliers should be matched with new demands for them in the rehabilitation and reconstruction programmes. A direct linkage should be made between intra-African trade and the energy, industry and agricultural sectors to ensure effective co-ordination. It hardly needs stressing that this could ensure that the emergency measures would be more fruitful.

(c) Medium and long-term measures

20. It is expected that a new political directive would be given for the development of intra-African trade as top priority in Africa's development process. The Lagos Plan of Action and the Final Act of Lagos, laid down the platform for dialogue at intra-African level. At subregional level, some form of dialogue continues to take place through the subregional inter-governmental economic, trade and monetary organizations. The major problem is that such a dialogue has often been sectoral and rather limited in scope.

21. The following measures are proposed over the medium and long-term period to develop and promote intra-African trade:

(i) New systems of management of the production and distribution structures should be introduced and matched against the demand and supply of goods and services for intra-African trade. This should be based on new programmes by which specific industrial and transport infrastructure, including rehabilitation of existing capacities are directly geared to trade among the African countries. Since Africa is now faced with serious economic crisis, a new dialogue should be conducted primarily within the existing subregional groupings to really look for new opportunities in trade among the African countries. Therefore, new positive attitudes towards Africa-made goods should be encouraged as a means of ensuring collective self-reliance and of enhancing further growth.

(ii) For a long time, African traders and businessmen were generally left out of the intra-African trade promotion measures. However, with the establishment of the Federation of African Chambers of Commerce in September 1984, it is hoped that this would change. The Federation is the most effective means of involving the private business sector in the current emergency measures.

But all countries are not members. Those national chambers which have not yet done so, should join the Federation. Therefore, it is urged (a) that all African governments should support the newly established Federation of African Chambers of Commerce to enable it to play its immediate role as the promoter of intra-African trade by directly keeping in touch with the traders and business operators of the member States; (b) The Federation should be accorded easy access to African countries in collecting and disseminating trade information and marketing opportunities for intra-African trade; and (c) Specifically, African governments are requested to assist in providing foreign exchange for travel to participate in meetings and for payments of annual membership dues to the Federation by the national Chambers of Commerce.

(iii) At the sub-regional levels, the countries should be encouraged to join the subregional Federations of Chambers of Commerce such as in West Africa, Central Africa and the one envisaged for Eastern and Southern Africa. Countries of North Africa should also seriously consider establishing a subregional Chambers of Commerce.

IV. FINANCING DOMESTIC AND INTRA-AFRICAN TRADE

22. Monetary and financial co-operation in Africa is envisaged primarily as a mechanism for facilitating payments for intra-African trade and services. With this in mind, the Lagos Plan of Action called for " the complete restructuring and reorientation of the policies and programmes of monetary and financial institutions imported into Africa (Central Banks, Commercial Banks, etc.) in such a way as to integrate them better in the development objectives of each country". It further called for the establishment of subregional payments and clearing arrangements and financial and money markets at the national, subregional and regional levels.

23. It is encouraging to note that many African Governments have, during the past few years, made and continued to make, serious efforts to adopt a series of austerity measures to effectively use their meagre foreign reserves and have, at the same time, introduced measures to boost their economies. Such measures have consisted inter alia of (a) export incentives, including devaluation of national currencies in an attempt to make national exports more competitive in world market and hence increase export revenues; (b) the minimization of production costs, including wage freezes; (c) the introduction of new pricing systems taking into account the incomes of the producers; (d) the introduction of export credit financing and export credit insurance schemes; and (e) heavy reduction in public expenditure and imports of capital goods as well as non-essential goods.

24. It must be stressed that the implementation of these measures sometimes gives rise to serious problems to the Governments which were not completed before. These problems arise partly from the lack of information and expertise on proper

debt management techniques based on a countries' full assessment of its economic potentials and opportunities. The problems identified in this section are intended to throw some light on how to institute new debt management systems in Africa as a means of dealing with the debt crisis not only on an emergency basis but also on more permanent basis.

25. Over the years, positive monetary and financial co-operation has emerged with the establishment of institutions such as the Association of African Central Banks (AACB), the West African Clearing House (WACH), the Central African Clearing House (CACH), and the Clearing House of the Preferential Trade Area for Eastern and Southern African States. In addition, the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC) which were established much earlier, have continued to serve its members effectively.

26. However, the following specific problems have arisen with regard to the operations of most of these institutions which require serious attention by the member States:

(i) Commercial Banks and other financial institutions, especially those owned and controlled by transnational corporations, are generally reluctant, and sometimes totally refuse, to extend credit facilities for domestic or intra-African trade especially where indigenous traders and business operators are concerned;

(ii) Some African countries, while subscribing to the membership in the above institutions, do not make use of the facilities they have created. For instance, many members do not use WACH, CACH and the PTA Clearing House as a medium for transacting intra-African trade. This is evidenced by a relatively low level of transactions passing through them, even after being in existence for a relatively long time;

(iii) Some of these organizations have very little resources at their disposal to discharge their functions and responsibilities effectively. Part of this problem arises from non-payment of annual subscriptions by the members. Another problem is the lack of support from the national development finance institutions such as agricultural development banks, agricultural credit finance institutions, and industrial development banks which do not normally link their activities with the payments and clearing houses.

27. At the policy making level, the weakest aspect of Africa's monetary and financial policy is manifested in several factors" (i) there are ineffective economic management systems which sometimes result in misuse of resources and wastage of public funds, including foreign aid, loans and investment. At the same time most countries are often unable to effectively utilize foreign and domestic resources to generate further incomes; (ii) some countries have no clearly defined monetary, fiscal and financial policies which are directly linked to the country's development objectives and priorities. As a result, domestic resources are not always fully utilized towards addressing the economic crisis facing them; (iii) there is no single institutional machinery within some African governments to review, assess and co-ordinate foreign aid programmes and or to co-ordinate policies of the donor countries with national development objectives and priorities; and (iv) some countries do not have full knowledge about their own financial resources potential and as such, they often tend to rely on foreign resources when domestic and subregional financial institutions could provide much of the resources needed for development.

(a) Emergency measures

28. The following measures are proposed to be taken without delay:

(i) All African governments should instruct all commercial banks in their countries to immediately use the existing subregional payments and clearing institutions for purposes of settlement of intra-African trade transactions. This should have the effect of releasing the foreign exchange which could be used for the importation of goods urgently needed for rehabilitation purposes;

(ii) Those countries which do not belong to any subregional payments and clearing arrangement should consider joining without further delay;

(iii) The African countries should fully support the establishment of the proposed African Monetary Fund as an institution which would ensure regional autonomy in devising a monetary and financial policy. Its establishment should be accelerated.

(iv) Immediate measures should be taken to increase the levels of domestic savings. This may be accomplished either through strengthening existing domestic savings institutions such as Post Office Savings Banks, Agricultural Credit Banks and Development Bonds where such system exists. Savings should also be encouraged through such other means as national or state lotteries, direct salary deductions for savings and national insurance schemes. This will have the effect of immediately reducing the need for external resources including loans;

(v) Countries should consider establishing a "National Savings Advisory Committee" composed of indigenous development economists, financial analysists, monetary economists and fiscal experts inter alia to advise the government on new measures to intensify domestic savings campaigns for rehabilitation and reconstruction of the economies and to administer policies for the allocation and utilization of domestic resources. Such a body would also be responsible for general domestic resources mobilization and for advising the government especially on how to channel domestic resources for reducing dependence on foreign resources.

(b) Medium and long-term measures

29. It is expected that provided that certain measures are seriously implemented, the present financial and monetary crisis in Africa would be brought under control within a period of say three years. However, there are likely to be deep-rooted disruptions in the financial and monetary systems whose solution would extend over the long-term period. Similarly, countries would wish to ensure that their economies do not again slide back into another similar crisis in the future. Consequently, in order to place the monetary system on a sound footing, the following medium and long-term measures are proposed:

(i) Each existing or any future subregional payments and clearing house should be strengthened and its activities co-ordinated with other subregional grouping to promote trade between different subregional groupings;

(ii) A subregional payments and clearing arrangement should be established for the North African countries.

V. CONCLUSIONS

30. The experience of the past five years has shown that the survival of Africa as a nation does not solely depend on the expansion of trade economic links with the North. Such survival also depends to a large extent on the development of effective systems of domestic and intra-African trade and co-operation. History also shows that in times of national calamities including war, it is only countries that were self-sufficient in food production and distribution that faired best. Hence, a political decision should be taken to institute new policy measures for promoting domestic and intra-African trade especially in food, to deal with the current economic crisis. The factors listed below should constitute an integral part of Africa's programme for survival.

31. Firstly, domestic trade and monetary institutions should be used to promote national food security and food self-sufficiency through new systems of production and distribution. Hitherto no coordinated action has been taken in this field and the ad hoc measures that have been instituted at national level have often failed to produce the required impact.

32. Secondly, an integral part of the intra-African trade strategy should include an immediate and intensive programme to increase the trade and exchanges of African produced goods and services in order to reduce our dependence on external markets. Since Africa is faced with a serious economic crisis, the days of paying lip-service to intra-African trade are over. New and serious dialogues should be conducted primarily within the existing subregional groupings to really look for new opportunities in trade among the African countries.

33. Thirdly, the African market is presently exploited by foreign interests from North America, South East Asia, Japan, Western and Eastern Europe. New positive attitudes towards African-made goods through the launching of "BUY AFRICAN GOODS" campaign should be encouraged as a means of ensuring collective self-relaince and of enhancing further growth. To this end, the establishment of supporting institutions such as the African Common Market and the African Payments and Clearing Arrangements and the proposed African Monetary Fund should be speeded up so as to make them operational ahead of schedule.

34. Finally, it is desirable that secretariats of the Economic Commission for Africa and the Organization of African Unity and the Food and Agricultural Organization (FAO) of the United Nations, in collaboration with other relevant United Nations bodies, should be requested to jointly prepare a comprehensive inventory of the food production in Africa especially of staple food grains and root crops as well as basic manufactured consumption goods. These should be matched against existing production, storage and distribution structures in all African countries. An intensive training campaign should then be mounted in all countries, especially the drought-stricken areas, to introduce new staple food grains and dietary habits in places where the traditional foodgrains can no longer be grown.